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Public Service Pension Plan

2005 Annual Report

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Public Service Pension Plan

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Public Service Pension Plan

2005

Annual Report

April 1, 2004 to March 31, 2005

Library and Archives Canada Cataloguing in Publication Data

Public Service Pension Plan (B.C.)

Public Service Pension Plan annual report. — 1994–

Annual.

Title from cover.

Some issues have title: Public Service Pension Plan ... annual report.

Imprint varies: 1995–1999, Public Service Pension Advisory Board; 2000– , British Columbia Pension Corporation.

Report year ends Mar. 31.

Continues: Public Service Superannuation Plan annual report, ISSN 1198–7049.

ISSN 1201–4192 = Public Service Pension Plan annual report

1. Public Service Pension Plan (B.C.) – Periodicals. 2. British Columbia – Officials and employees – Pensions – Periodicals. I. British Columbia. Superannuation Commission. II. British Columbia. Public Service Pension Advisory Board. III. British Columbia Pension Corporation. IV. Title. V. Title: Public Service Pension Plan ... annual report.

JL432.Z2P82 331.25'291354711 C95–960327–1

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Message from the Trustees

The Public Service Pension Board of Trustees is pleased to present this annual report for the fiscal year ending March 31, 2005. This report gives us an opportunity to tell you about the improvements and changes that took place over the past year, and to report on the financial results of the plan.

The trustees are committed to providing high standards of service delivery. In 2004 we continued to build on service improvements we had made in the previous years. We also continued to improve communications to our members, and to plan for future expanded web services.

On April 1, 2004, changes were introduced with a new transfer agreement between the public sector pension plans of BC. Active members who have service in more than one BC public sector pension plan may want to inquire about eligibility to transfer and combine their service.

In 2004 we made extended health and dental benefits available to more retired members. Retirees living outside BC but within Canada now have access to extended health and voluntary dental benefits; and retired members who have small pensions can now pay premiums through a direct-pay option to Pacific Blue Cross.

To help strengthen the plan's Inflation Adjustment Account (IAA), the Public Service Pension Plan Partners entered into an agreement to increase its funding. Cost-of-living increases are funded from the IAA. The agreement resulted in employer contributions to the IAA increasing 0.25% of member's salary on April 1, 2004 and a parallel 0.25% increase to plan member contributions effective April 1, 2005.

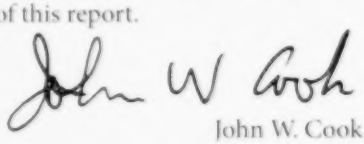
We're committed to ensuring that your pension plan is well managed. The trustees take a long-term approach to fund management and work hard to ensure the portfolio is well diversified to provide strong long-term results.

The actuarial valuation as at March 31, 2002 indicated a funding surplus of $546 million. The next actuarial valuation report as at March 31, 2005 will be available in early 2006. We anticipate that this valuation will show a significant deterioration in the plan's actuarial position due to the delayed effects of poor investment returns experienced during 2000/01 to 2002/03. Regrettably, plan members and plan employers should expect that an increase in their contribution rates will be required following receipt of the report.

The Public Service Pension Plan currently has about 51,000 active plan members and about 30,000 retired plan members...

The Public Service Pension Plan currently has about 51,000 active plan members and about 30,000 retired plan members who are already receiving a pension. The number of retired members is expected to continue to grow as more and more baby-boomers reach retirement age. The change in ratio between active contributing members and retired members may impact future indexing and group benefits. We are monitoring these changes as we focus on the long-term management of the fund.

We welcome all new members and look forward to continuing to serve the Public Service Pension Plan. If you would like to contact us, please write, call or e-mail us at the numbers on the back cover of this report.



John W. Cook
Chair

Public Service Pension Board of Trustees

as at March 31, 2005

Chair
John W. Cook

Trustee	Appointing Body	Nominating Body	Employer
Ed Bodner	BC Government Retired Employees' Association		Retired
Joyce Burns	B.C. Government and Service Employees' Union (BCGEU)	Unions other than BCGEU	BC Ferry Services Inc.
Adam Charania	Provincial Government		Ministry of Skills, Development and Labour
Bruce Clow	Provincial Government		BC Buildings Corporation
David Day	Provincial Government	BC Excluded Employees' Association	BC Excluded Employees' Association
Andy Jani	Provincial Government		Ministry of Finance
Jodi Jensen	BCGEU	Professional Employees Association	Professional Employees Association
Bruce Kennedy	Provincial Government		Public Sector Employers' Council
Paul Martin	BCGEU		BCGEU
Laurie McAmmond	Provincial Government	Crown Corporations Employers' Association	BC Assessment Authority
Ron McEachern	Provincial Government		Retired
Sandi McLean	BCGEU		Ministry of Finance
David Vipond	BCGEU		BCGEU
Diane Wood	BCGEU		BCGEU

Message from the Chief Executive Officer—Pension Corporation

The BC Pension Corporation is one of the largest pension benefit administrators in Canada. As an agent to the Public Service Pension Board of Trustees, we perform key administrative duties such as enrolling members, collecting and recording members' and employers' contributions, and calculating, processing and paying pension benefits. We also provide policy, financial and communications support to the Public Service Pension Board of Trustees.

Although we faced many challenges this year, we made great strides along our path to becoming one of the best pension administrators in Canada. Together, the management team and employees of the corporation were successful in increasing productivity, decreasing costs, and providing services that put our clients first.

In 2004, we met, or exceeded, performance targets for almost all key transactions. A survey of active plan members shows 83% were satisfied or very satisfied with the services they received from the corporation, up from 78% last year.

We achieved in-year savings of approximately $1 million against our budget. As a result, we reduced the cost per member from $114 to $102, which is significantly lower than what we forecast. These savings directly benefit the Public Service Pension Plan members because the draw on pension funds required to support the administration has been reduced.

In December, we won the Premier's Award for Service Excellence based on our demonstrable shift to providing a client-focused approach to service delivery. We simplified plan summary information and successfully completed the plan identity project for Public Service Pension Plan members.

As well, we made major progress on the retirement re-engineering and purchase of service projects, with client focus, simplification and greater efficiency as key objectives. These projects, along with promoting the use of the Internet, are good examples of how we are improving our clients' capabilities for self-service—and making their pension experience easy.

I would like to acknowledge the contribution of the Pension Corporation employees for their hard work, dedication and commitment in helping us reach our strategic objectives.

This is my second year in serving you as the Chief Executive Officer, and I want to thank the Public Service Pension Board of Trustees for the opportunity of working with you.

Gail Stephens
Chief Executive Officer
BC Pension Corporation

Message from the Chief Investment Officer—bcIMC

Investment Results—Year End Review

World economic growth moderated in the year ending March 31, 2005. Some countries, such as the United States and China, grew faster than had been anticipated. In other countries/regions, such as Europe and Japan, economic growth was below market expectations. While oil prices remained very high, global inflation remained in check and did not pose a significant concern to capital markets.

Fiscal 2004/05 was also a relatively good year for investors. Short-term interest rates in the United States rose as the U.S. Federal Reserve removed some of the monetary stimulus provided during the last economic downturn. However, uncertainty about the sustainability of economic growth and low inflation numbers meant that long-term interest rates declined. Corporate profits were exceptionally strong at the start of the year but slowed as the year progressed. There was also a reduction in market volatility, as investors' confidence was generally buoyed by the stronger-than-expected results.

The Basic Account earned an 8.1% return in fiscal 2004/05, above its market benchmark of 7.1%. The Inflation Adjustment Account earned an 8.5% return, versus its benchmark of 7.3%.

Once again, Canada had one of the best performing equity markets amongst the developed economies. This was attributable to strong demand for commodities, good fiscal performance by Canadian governments, and a rising dollar. The plan participates in three Canadian stock portfolios and their 2004/05 returns ranged between 14.5% and 16.6%.

Bonds also provided better-than-expected returns last year. Real return bonds were the strongest performers and provided returns ranging from 9.8% to 10.7%. Other bond portfolios ranged from 4.9% to 9.5%. The strong returns from bonds are because long-term interest rates fell. Unfortunately, lower interest rates will also reduce future return prospects.

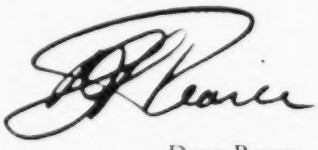
U.S. equity returns were adversely affected by the decline of the U.S. dollar relative to its Canadian counterpart. However, the impact of currency movements was mitigated by some currency hedging by the British Columbia Investment Management Corporation (bcIMC). In fact, our hedging activities added approximately $51 million to the plan's investment return in 2004/05.

International equity returns ranged from -0.1% to 11.0% in 2004/05. Real estate returns were also strong, producing a 12.8% return.

Recently the federal government has announced that it will be eliminating the restriction on foreign investments for registered pension plans. While we do not expect that this will result in a significant change in the plan's investment strategy, it is a very positive development and increases investment options and flexibility. It will also produce financial benefits by reducing the administrative cost and complexities of managing compliance to the foreign property rule.

Looking forward, one of the biggest challenges facing the plan will be meeting its long-term goals in a low interest rate environment. However, on the positive side, during the past two years investors have become increasingly confident regarding the economy and financial markets. This has resulted in reduced market volatility and higher-than-expected investment returns. Hopefully, this spirit of optimism will carry on in the current year.

Overall, bcIMC is proud of our strong working relationship with the Public Service Pension Board of Trustees and looks forward to continue working closely with the board in meeting the plan's investment objectives.



Doug Pearce
Chief Investment Officer/
Chief Executive Officer
BC Investment Management
Corporation

Partners, Trustees and Agents

The Public Service Pension Plan is governed by representatives of both plan members and plan employers. These representatives make up the board of trustees. This shared management is called joint trusteeship. For more information on joint trusteeship, visit the plan website at **pensionsbc.ca**.

The **plan partners** are the provincial government and the B.C. Government and Service Employees' Union (BCGEU). These partners and other organizations representing plan employers and plan members are responsible for nominating and appointing the trustees.

The **Public Service Pension Board of Trustees** is responsible for the management of the pension plan, including asset investment and plan administration. The board of trustees may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. Plan rule changes that result in contribution rate changes must be initiated by the partners. However, if the actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board of trustees. The corporation enrols members, collects contributions, processes benefits and issues pension payments.

The **British Columbia Investment Management Corporation (bcIMC)** provides investment management services as an agent of the board of trustees. The bcIMC is one of the largest institutional investors in the country, offering a wide range of fund management services.

Member Services and Communications

The Public Service Pension Plan has a strong team of professionals devoted to providing quality and cost-effective services to plan members.

In 2004, staff continued to make impressive gains in service improvements and efficiencies. The plan's response time to process purchase requests continued to be a priority, as we began planning for the expected increase in purchase requests leading up to the March 31, 2007 deadline. We regularly conduct surveys of plan members to evaluate the quality of our services and to identify areas for improvement. The surveys show that both active and retired members give staff a high satisfaction rating for service quality.

Communicating with plan members is a priority of the Public Service Pension Board of Trustees. Guidelines and standards are followed to ensure all plan information is easy to understand and easy to use. By practicing plain language principles and focus testing many of our products, we continue to improve the effectiveness and quality of our member and employer communications. In 2004 we adopted a new plan logo for all plan communications products, giving the plan its own distinct and positive look. Members will see the new logo on all new publications and on the Public Service Pension Plan website at **pensionsbc.ca**.

New and updated communications materials are regularly published, and new online products and services are continually being developed. The plan produces the annual Member's Benefit Statement, forms, bulletins, retirement information packages, a series of pension fact sheets, and a newsletter for retired members published twice a year. In addition, our website provides excellent pension plan information and online estimators at **pensionsbc.ca**.

One new publication, *Report to Members*, replaces the *Annual Report Summary*, and provides active plan members with an update of recent and upcoming changes to the plan, and a summary of the plan's financial heath. Retired plan members will receive updated financial information about the pension plan in their *PensionNews* newsletter.

Communicating with plan members is a priority of the Public Service Pension Board of Trustees.

Plan Participants

Members

Membership in the Public Service Pension Plan is open to all eligible employees of the provincial public service or other employers approved by the Public Service Pension Board of Trustees. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of pensionable service.

There are three categories of members in the Public Service Pension Plan:

- **Active**—those currently contributing, or on a leave of absence, or receiving benefits from an approved salary continuance plan.
- **Inactive**—those who have terminated employment but whose contributions remain on deposit in the plan. They may or may not be eligible for a pension in the future.
- **Retired**—those who are receiving a pension, including those who are receiving a disability pension.

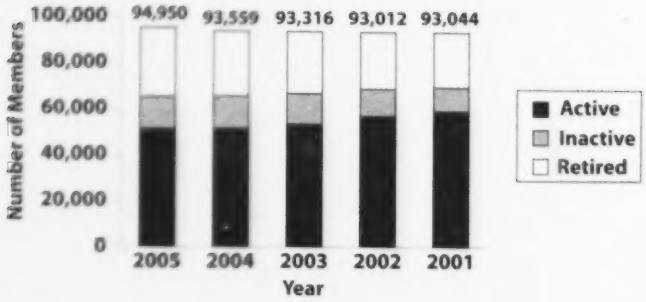
The number of active plan members in the Public Service Pension Plan decreased by about 0.4% in 2004/05. Today there are 50,872 active plan members and 30,059 retired members.

Number of Members
as at March 31

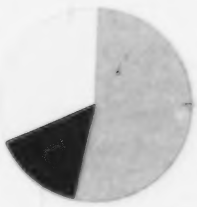
Year	Active	Inactive	Retired	Total
2005	**50,872**	**14,019**	**30,059**	**94,950**
2004	51,097	14,083	28,379	93,559
2003	52,802	13,570	26,944	93,316
2002	56,342	12,055	24,615	93,012
2001	58,572	10,506	23,966	93,044

Plan Participants

Number of Members
as at March 31



Membership Profile
as at March 31, 2005



Retired 30,059 32%

Active 50,872 53%

Inactive* 14,019 15%

* Members no longer employed, but with money in the plan.

Active Member Profile
as at March 31, 2005

Male 24,593 48%

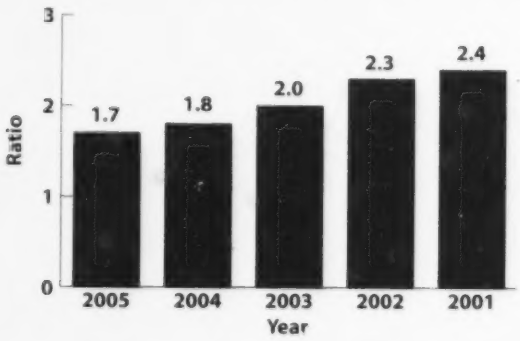
Female 26,279 52%

Active Member Employment
as at March 31, 2005

Active Members:
Province of British Columbia, and others who use the Province as their payroll provider
28,113 55%

Active Members:
Other Employers **22,759 45%**

Ratio of Active Members to Retired Members



Employers

as at March 31, 2005

Province of British Columbia
BLJC Workspace Solutions Inc.
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Centre for Disease Control
British Columbia Excluded Employees' Association
British Columbia Ferry Services Inc.
BC Ferry and Marine Workers' Union
B.C. Government and Service Employees' Union
British Columbia Housing Management Commission
British Columbia Investment Management Corporation
British Columbia Institute of Technology
British Columbia Mental Health Society
BC Milk Marketing Board
BC Pavilion Corporation
British Columbia Pension Corporation
British Columbia Safety Authority
British Columbia Securities Commission
British Columbia Transit
British Columbia Treaty Commission
British Columbia Utilities Commission
Business Practices and Consumer Protection Authority
Canada/British Columbia Business Services Society
Canadian Office and Professional Employees' Union, Local 378
Canadian Road Builders Inc. (Lafrentz Division)
Coast Capital Savings Credit Union
Coast Mountain Bus Company
Cobra Electric (South Coast) Ltd.
Columbia Power Corporation
Deas Pacific Marine Inc.
EDS Advanced Solutions Inc.
Elections BC (Office of the Chief Electoral Officer)
Emergency Health Services Commission
Environmental Appeal Board
First People's Heritage, Language and Culture Council
Forensic Psychiatric Services Commission
Forest Practices Board
Fraser Health Authority
Fraser River Marine Transportation Ltd.
Freshwater Fisheries Society of BC
Greater Vancouver Transportation Authority
Health Research Foundation
Homeowner Protection Office
Industry Training Authority
Innovation and Science Council of British Columbia
Insurance Corporation of British Columbia
Interior Health Authority
Islands Trust Council
ISM Information Systems Management Canada Corporation
Justice Development Commission
Land and Water BC Inc.
Land Title and Survey Authority of British Columbia
Liquor Distribution Branch
Mainroad Pavement Marking Ltd.
Maximus BC Health Benefit Operations Inc.
Maximus BC Health Inc.
Northern Health Authority
Oak Bay Lodge
Office for Children and Youth
Office of the Auditor General
Office of the Conflict of Interest Commissioner
Office of the Fire Commissioner
Office of the Freedom of Information and Privacy Commissioner
Office of the Ombudsman
Office of the Police Complaint Commissioner
Okanagan Valley Tree Fruit Authority
Pacific Vehicle Testing Technologies Ltd.
Partnerships British Columbia Inc.
Professional Employees Association
Provincial Agricultural Land Commission
Provincial Health Services Authority
Public Sector Employers' Council
Purchasing Commission
Royal British Columbia Museum
St. Paul's Hospital
Telus Sourcing Solutions Inc.
Tillicum and Veterans Care Society (Broadmead Lodge)
Tourism British Columbia
Union of Psychiatric Nurses
Vancouver Coastal Health Authority
Vancouver Island Health Authority
VSA Highway Maintenance Ltd.
WaterBridge Equipment Ltd.
Western Pacific Marine Ltd.
Workers' Compensation Appeal Tribunal

Contributions

Members of the Public Service Pension Plan contribute to the plan through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. Once a member terminates employment, retires, or reaches 35 years of pensionable service, they no longer contribute. The contribution rates in the table below are applied to pensionable salaries. In order to strengthen the plan's Inflation Adjustment Account (IAA), the plan partners entered into an agreement to increase contribution rates. Effective April 1, 2004, employer contributions to the IAA increased by 0.25% of salaries; effective April 1, 2005, member contributions to the IAA increased by 0.25% of salaries.

Both plan members and employers pay contributions to fund future pension benefits.

The current rates are:

Member

- 5.5% of pensionable salary up to and including the YMPE* (effective April 1, 2005: 5.75%), and
- 7.0% of pensionable salary for salary greater than the YMPE* (effective April 1, 2005: 7.25%).

Employer

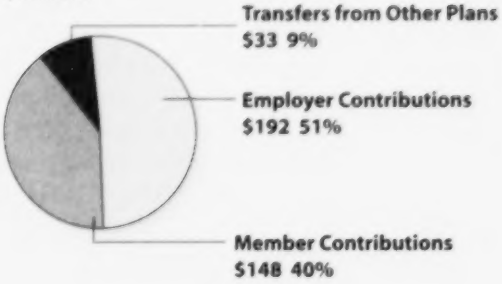
- 6.75%** of pensionable salary up to and including the YMPE,* and
- 8.25%** of pensionable salary for salary greater than the YMPE.*

* Year's Maximum Pensionable Earnings (YMPE) is the earnings limit on which you make Canada Pension Plan (CPP) contributions. The 2004 YMPE was $40,500, and was increased to $41,100 in 2005.

** Except for certain limited groups (e.g., correctional centre employees, ambulance employees, provincial court judges, masters of the Supreme Court, and some deputy ministers and officers of the Legislature) where employers pay a higher rate to compensate for the additional cost of their benefits.

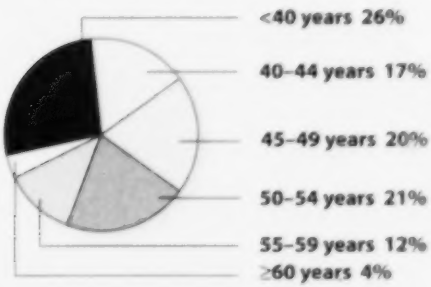
2004/05 Contribution Revenue

$ Millions



Age Profile of Active Members

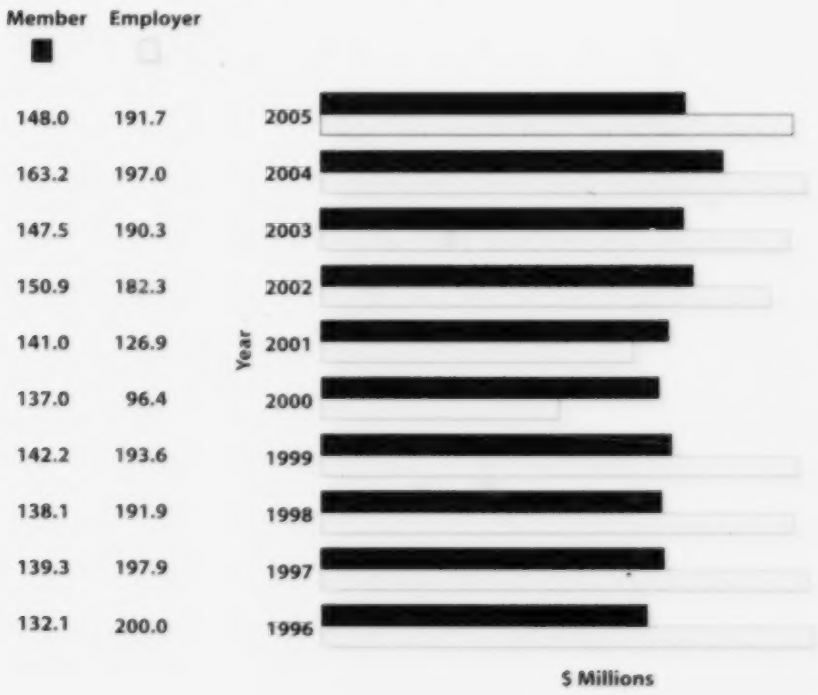
as at March 31, 2005



Contributions

year ended March 31

$ Millions



Plan Benefits

Pensions

Plan benefits are defined by the pension plan rules made under the authority of the joint trust agreement. The following is a general description of plan benefit rules.

The Public Service Pension Plan is a plan with three components: basic pension benefits, inflation adjustments, and group health benefits.

The basic pension benefit is guaranteed by the Public Service Pension Plan, and its availability does not depend on economic conditions. The basic pension benefit is based on how many years the member contributed to the plan, the average of the five highest years of salary, and age at retirement. Members are entitled to a pension benefit after two years of contributory service and after having reached a qualifiying age.

While future increases are not guaranteed, inflation adjustments, once granted, become part of the basic, guaranteed benefit. Adjustments for inflation are calculated every January, are not guaranteed, and are only offered subject to available funding.

On January 1, 2005, retired members received a full Consumer Price Index (CPI) increase of 1.8% (2004: 2.2%). Inflation increases to the pension may be provided each year, based on the annual increase in the CPI. (See Note 7b to the Financial Statements).

Group health benefits are not guaranteed. These non-pension benefits are optional and subject to funding. They are funded from contributions that would otherwise be employer inflation contributions.

The board monitors the ability to continue to provide these benefits on an ongoing basis.

At March 31, 2005, the plan provided pensions to 30,059 retired members, an increase of 6% in retired members from the previous year.

Basic Pension— *Monthly pension that is paid by the pension plan for a member's lifetime. The pension may continue to another person after the member's death, depending on the form of pension the member chooses at retirement.*

Bridge Benefit— *A temporary pension paid to the member from retirement until age 65 or death, whichever comes first.*

Cost-of-living—*Increases to monthly pension amounts are based on the annual increase in the cost-of-living as measured by the Consumer Price Index. Inflation adjustments begin the first January after a member retires. This indexing is not guaranteed.*

Plan Benefits

The table below shows the average asset value ("present value") of new regular pensions during 2004/05. The value represents approximately how much it would cost to purchase an average basic pension provided under the Public Service Pension Plan.

Average Values of New Regular Pensions—April 1, 2004 to March 31, 2005

Subdivided by years of service

Years of Service*	Number of New Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	134	$47,000	$ 4,600	$ 72,000	$ 9.6
10–14	202	47,000	8,900	143,000	28.9
15–19	231	48,000	12,200	198,000	45.7
20–24	341	49,000	16,700	284,000	96.8
25–29	429	54,000	22,600	399,000	171.2
30–34	414	56,000	27,800	500,000	207.0
35 years	102	55,000	29,200	516,000	52.6
Total	**1,853**	**n/a**	**n/a**	**n/a**	**$611.8**
Average of all Pensions	n/a	$52,000	$18,900	$330,000	n/a

* Years of service includes service transferred from other plans.

New Pensions—By Type 1996–2005

	Regular*	Death*	Disability†	Deferred	Total
2004/05	**1,853**	**35**	**102**	**265**	**2,255**
2003/04	1,638	37	136	194	2,005
2002/03	2,344	46	317	158	2,865
2001/02	877	38	116	118	1,149
2000/01	1,017	45	106	96	1,264
1999/00	808	43	86	129	1,066
1998/99	729	40	77	135	981
1997/98	1,741	21	293	123	2,178
1996/97	1,049	27	172	73	1,321
1995/96	862	28	98	100	1,088

* New regular pensions do not include pensions continued to a beneficiary upon the death of a retired member.

† Includes members on long-term disability who became eligible for a regular pension.

Transfers from the Members of the Legislative Assembly Superannuation Account, 1996–2005

$ Thousands

	Present Value of Pensions Transferred	Inflation Adjustment Contributions Transferred
2004/05	**1,287**	**138**
2003/04*	687	214
2002/03	–	1
2001/02	12,964	9
2000/01	222	42
1999/00	559	56
1998/99	188	60
1997/98	–	25
1996/97	4,687	43
1995/96	–	103

* Prior year is amended, but total for the year is unchanged.

When a Member of the Legislative Assembly receives a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Public Service Pension Plan, which pays the monthly benefit.

Pensions 1996–2005

	Public Service			MLA			$ Millions		
	New Pensions during Year	Pension Terminations	In Force at End of Year	New Pensions during Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid	Inflation Supplements Paid	Total Pensions Paid
2004/05	**2,255**	**575**	**30,059**	**3**	**–**	**126**	**370.2**	**80.8**	**451.0**
2003/04	2,005	570	28,379	2	2	123	329.9	76.1	406.0
2002/03	2,865	536	26,944	–	3	123	294.3	71.1	365.4
2001/02	1,149	500	24,615	26	2	126	250.7	66.1	316.8
2000/01	1,264	454	23,966	1	1	102	234.4	61.1	295.5
1999/00	1,066	505	23,156	2	2	102	220.2	56.6	276.8
1998/99	981	447	22,595	1	2	102	211.3	55.6	266.9
1997/98	2,178	414	22,061	–	3	103	203.1	54.2	257.3
1996/97	1,321	415	20,297	12	2	106	173.0	52.8	225.8
1995/96	1,088	382	19,391	–	1	96	160.7	50.2	210.9

2004/05 New Regular Pensions—By Age at Retirement Normal Retirement, Age 60

Subdivided by years of service and age at retirement

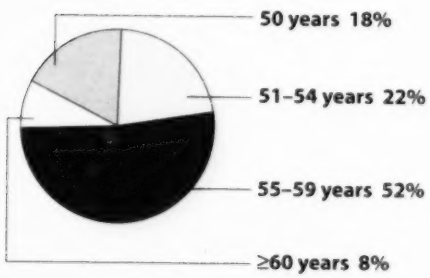
Years of Service	50	51–54	55–59	≥60	Total
<10 years	–	1	2	–	3
10–14	–	3	6	–	9
15–19	3	2	3	3	11
20–24	1	1	7	–	9
25–29	5	3	3	1	12
30–34	–	1	4	–	5
35 years	–	–	1	–	1
Total	**9**	**11**	**26**	**4**	**50**
Average age 55					

2004/05 New Regular Pensions—By Age at Retirement Normal Retirement, Age 65

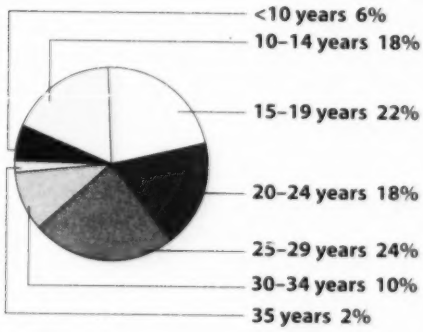
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	≥65	Total
<10 years	22	41	43	25	131
10–14	33	62	85	13	193
15–19	31	89	81	19	220
20–24	72	143	105	12	332
25–29	144	175	89	9	417
30–34	200	152	51	6	409
35 years	41	29	25	6	101
Total	**543**	**691**	**479**	**90**	**1,803**
Average age 58					

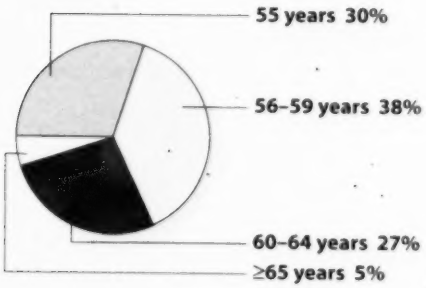
Percentage of 2004/05 New Regular Pensions
by Age—Normal Retirement Age 60



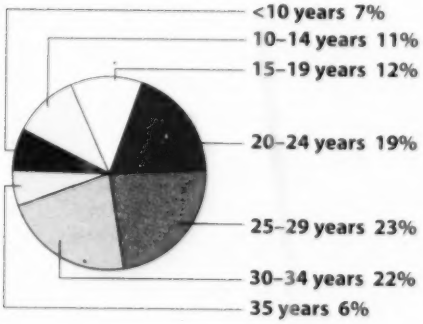
Percentage of 2004/05 New Regular Pensions
by Years of Service—Normal Retirement Age 60



Percentage of 2004/05 New Regular Pensions
by Age—Normal Retirement Age 65



Percentage of 2004/05 New Regular Pensions
by Years of Service—Normal Retirement Age 65



Termination and Refund Benefits

A terminating member who is eligible for a pension, but has not yet reached the earliest retirement age, may choose:

- a deferred pension; or
- transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or a similar tax-sheltered plan.

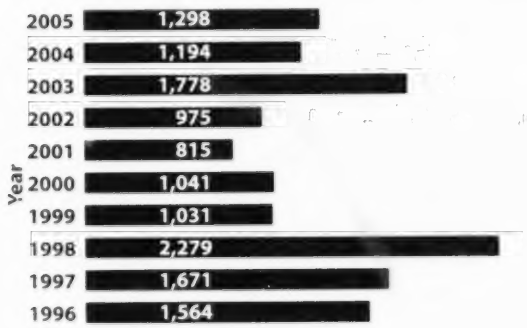
A terminating member may also choose to leave monies on deposit in the pension plan in anticipation of future entitlements.

If a member is under 60 with less than two years of service, they may also choose a refund of contributions with interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is shown on the annual Member's Benefit Statement. The rate of interest is governed by the applicable pension legislation and is based on average five-year bank personal term deposit rates (2005—2.74%; 2004—2.85%).

The number and value of termination benefits paid from the plan can vary from year to year, depending on the employment environment, the type of benefits paid, and the members' entitlements. In 2004/05, the number of termination benefits paid increased compared to 2003/04.

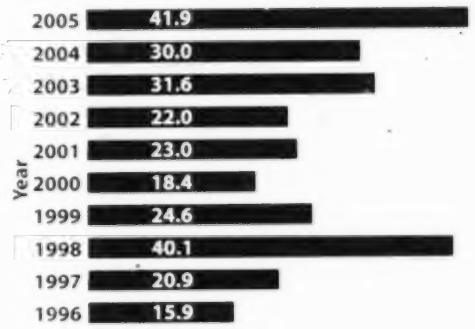
Number of Termination and Refund Benefits Paid

year ended March 31



Value of Termination and Refund Benefits Paid

year ended March 31



Termination benefits paid include refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

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Number of Termination and Refund Benefits Paid
year ended March 31

Value of Termination and Refund Benefits Paid
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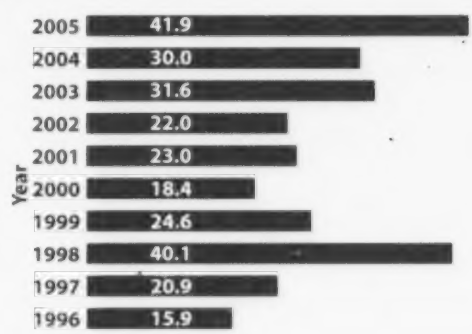


Termination benefits paid include refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

Transferring Service

Transfer agreements allow pension plan members to carry pension rights from one plan to another. Members may carry their years of pensionable service to a new plan, at a different place of employment, if the new plan has an agreement with the Public Service Pension Plan. In order to transfer service, the member must have left their contributions on deposit, or reinstated service. Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits between the two plans. Members of the plan who have made contributions to another pension plan may want to inquire about transfer agreements.

Under the BC Public Sector Pension Transfer Agreement of April 1, 2004, transfers can be made between the Public Service Pension Plan (PSPP) and the other BC public sector plans (College, Municipal, Teachers' and Workers' Compensation Board). The PSPP also participates in the National Public Service Pension Transfer Agreement, which allows transfers between a number of provincial public service pension plans in Canada.

In 2004/05, there were 653 reciprocal transfers-in from other pension plans and 606 transfers-out. The transfers-in totalled $33.5 million; transfers-out totalled $41.5 million.

Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits between the two plans.

Purchase of Additional Service

Members of the plan may be able to increase their future pension benefits by purchasing periods of past service. Purchasing service means paying for periods of employment that have not already been counted as service with the plan. This service may include:

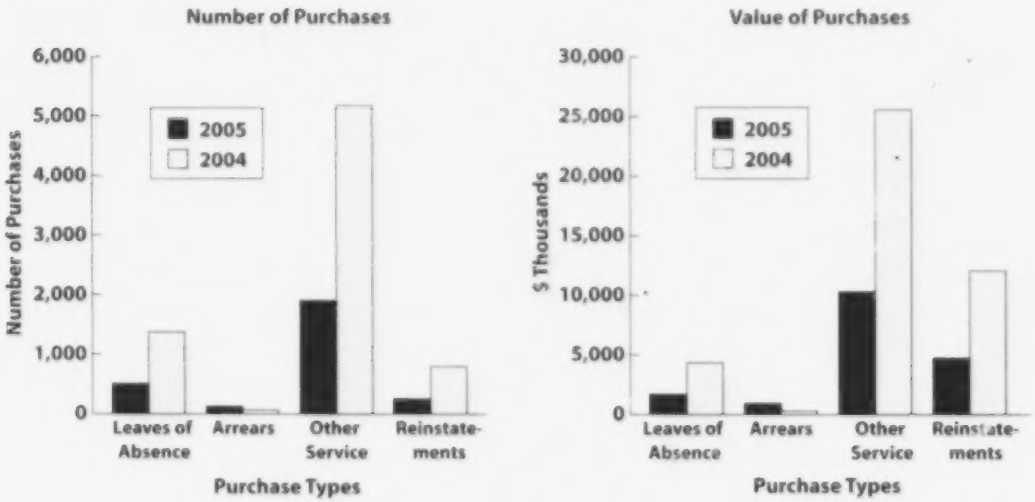
- leaves of absence (maternity, parental, or other leave)
- arrears contributions (not enrolled but eligible to buy back missed contributions)
- other service (employment service before becoming a regular contributor), or
- reinstatements (contributions previously refunded from the plan).

Members must apply to purchase historical periods of service by March 31, 2007.

Purchase of service rules changed on April 1, 2002. Members must now apply to purchase historical periods of service by March 31, 2007. Beginning April 1, 2007, members may only purchase periods of service that occurred during the previous five years, provided the member applies to purchase prior to terminating employment. More information about purchasing service, including costs, is available on the plan website at **pensionsbc.ca**.

In 2004/05 the number of purchases of additional service decreased 63% from 2003/04. The value of the purchases decreased 58%.

Member and Employer Purchases of Additional Service
year ended March 31



Investments

Market Review

One of the major fiduciary roles of the board of trustees is the responsibility for overseeing the investment of more than $14 billion in assets for the long-term benefit of the plan members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision making.

The board of trustees reviews the Statement of Investment Policies and Procedures (SIPP) annually, approves the long-term asset mix policy for the investment of assets, and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC). Diversification of investments is a key principle in the investment policy. Investments are held in a range of asset types (bonds, equities, real estate), industry sectors, and global markets.

In 2004/05, world economic growth moderated, with some countries above and others below expectations. Inflation was not a significant concern despite high oil prices. Early strong corporate profits slowed before year-end. Uncertainty and lower inflation resulted in a decline in long-term interest rates. Stronger-than-expected results increased investor confidence, resulting in lower market volatility. Strong demand for commodities, good fiscal performance by government and a rising dollar resulted in a relatively superior performance by Canadian equities, which earned 14.5% to 16.6%. Bonds earned 4.9% to 9.5% while real return bonds performed at 9.8% to 10.7%. Falling interest rates enhanced bond returns in 2004/05; however, this also means lower bond returns in the future. Returns on U.S. investments at -2.0% to 5.2% were dampened by the decline of the U.S. dollar against the Canadian dollar, but hedging strategies reduced U.S. dollar losses by approximately $51 million.

The plan's Basic Account recorded an 8.1% annual return on its investment portfolio, above its 2004/05 benchmark of 7.1%. On a five-year basis, the return for the plan's Basic Account was 3.7%.

Looking forward, one of the biggest challenges facing the board may be meeting our long-term goals in the current low interest rate environment. However, on the positive side, during the past two years investors have become increasingly confident regarding the economy and financial markets. This has resulted in reduced market volatility and higher-than-expected investment returns. Hopefully this spirit of optimism will carry on in 2005/06 and the years to come.

... the board's goal is to achieve consistent and steady performance over the longer term ...

Approved Investment Asset Mix

Strategic and short-term asset allocation targets are set within the ranges in the Basic Account Investment Asset Mix and Performance table below. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Basic Account Investment Asset Mix and Performance

For the year ended March 31, 2005

Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark* (%)
Fixed Income	**25–45**			
Short-term	0–5	0.7	2.8	1.8
Mortgages	0–10	4.0	5.0	3.8
Bonds	17–28	23.5	5.9	5.9
Real Return Bonds	0–10	5.0	9.8	10.7
Equity	**55–75**			
Canadian Equities	15–25	23.8	15.3	13.9
U.S. Equities***	10–20	14.4	2.1	-1.1
International Equities	10–20	15.6	5.8	5.5
Real Estate	8–15	10.4	12.8	6.3
Private Placements	0–10	2.6	**	**

* Benchmarks are standards to compare against actual investment returns.
** Annual rate of return not applicable.
*** Rate of return includes derivatives.

Investment Portfolio

Investments consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly, based on the fair market value of the underlying assets. Income from investments represents pooled investment portfolio income attributable to the plan as a unit holder.

Investments Held as at March 31, 2005

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	75,028	1
Bonds (1-5 years)	28,506	–
Bonds		
Government	2,114,074	15
Corporate	601,786	4
Long-term	577,595	4
Canadian Equities		
Indexed	2,009,600	14
Actively Managed	1,333,241	10
U.S. Equities		
Indexed	713,603	5
Actively Managed	1,301,522	9
International Equities		
Asia	419,550	3
Europe	677,823	5
Europe, Australia and the Far East	1,072,608	8
Real Estate	1,458,643	10
Mortgages	554,780	4
Private Placements	372,873	3
Foreign Currency	20,220	–
Total Pooled Portfolios	**13,331,452**	**95**
Real Return Bonds	698,859	5
Total Investments	**14,030,311**	**100**
2004 Comparison	13,209,033	

For further information on the investment portfolio, visit the British Columbia Investment Management Corporation website at www.bcimc.com

Investments Held as at March 31, 2005

Top Ten Holdings (Underlying investments are in pooled portfolios.)

Canadian Equities

Company	Market Value ($ Thousands)	% of Total Canadian Equities
Manulife Financial	$ 153,196	4.6
Royal Bank of Canada	145,666	4.3
Bank of Nova Scotia	139,037	4.2
Encana Corporation	129,388	3.9
Toronto Dominion Bank	122,048	3.6
Bank of Montreal	82,239	2.5
Canadian Imperial Bank of Commerce	78,439	2.3
Suncor Energy Inc	75,627	2.3
Canadian National Railway	72,803	2.2
Bell Canada Enterprises Inc	71,819	2.1
Total Top Ten	**$ 1,070,262**	**32.0**
Total Canadian Equities	**$ 3,342,841**	**100.0**

U.S. Equities

Company	Market Value ($ Thousands)	% of Total U.S. Equities
Citigroup Inc	$ 32,702	1.6
General Electric	27,142	1.3
Pfizer Inc	24,420	1.2
Exxon Mobil Corp	23,773	1.2
Bank of America	23,601	1.2
Microsoft Corp	18,765	0.9
American International Group	18,293	0.9
Conoco-Phillips	15,588	0.8
Chevron-Texaco	13,950	0.7
JP Morgan Chase	13,864	0.7
Total Top Ten	**$ 212,098**	**10.5**
Total U.S. Equities	**$ 2,015,125**	**100.0**

International Equities

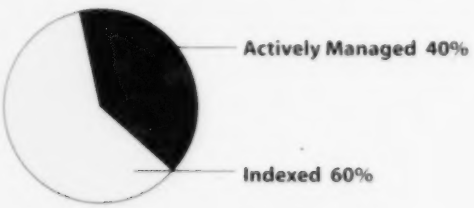
Company	Market Value ($ Thousands)	% of Total International Equities
Total Fina Elf	$ 41,825	1.9
Vodafone Group	39,233	1.8
BP	37,252	1.7
HSBC Holdings	29,952	1.4
GlaxoSmithKline	27,723	1.3
Royal Bank of Scotland Group Plc	27,618	1.3
Sumitomo Mitsui	27,474	1.3
Enersis SA	26,701	1.2
Nestle SA	26,145	1.2
Novartis AG	25,573	1.2
Total Top Ten	**$ 309,496**	**14.3**
Total International Equities	**$ 2,169,981**	**100.0**

Investments Held as at March 31, 2005

2005 Investment Holdings (Market Value)
$ Billions

Canadian Equities $3.3 24%
Bonds $4.0 28%
U.S. Equities $2.0 14%
International Equities $2.2 16%
Real Estate, Mortgages, Private Placements and Foreign Currency $2.4 17%
Short-term $0.1 1%

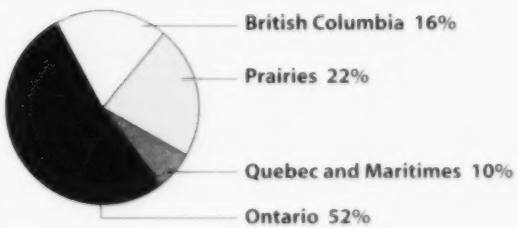
Canadian Equities (Market Value)



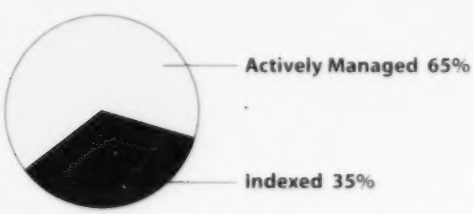
Real Estate, by Type

■ **Indexed:**	A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite)
□ **Actively Managed:**	A portfolio of securities that is designed to outperform a public market index

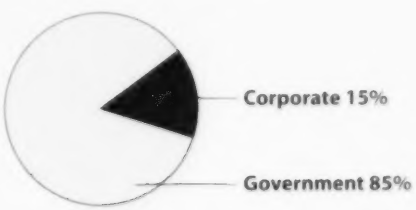
Real Estate, by Location



U.S. Equities (Market Value)



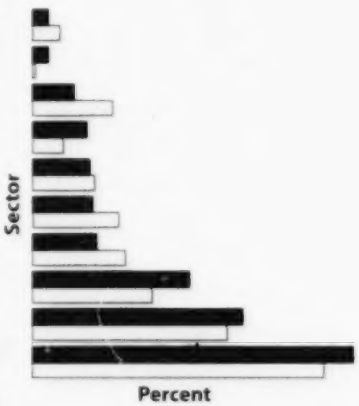
Bonds (Market Value)



Investments Held as at March 31, 2005

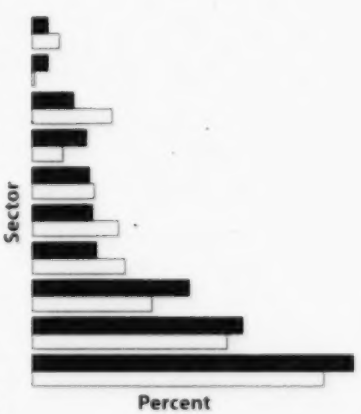
Canadian Equities, by Sector

	Indexed (%)	Actively Managed (%)
Health Care	1.5	2.8
Utilities	1.5	0.3
Consumer Staples	4.1	8.1
Telecommunication Services	5.4	3.1
Information Technology	5.7	6.3
Industrial Products	6.0	8.7
Consumer Discretionary	6.4	9.4
Materials	15.8	12.1
Energy	21.2	19.7
Financial Services	32.4	29.5
	100%	100%



U.S. Equities, by Sector

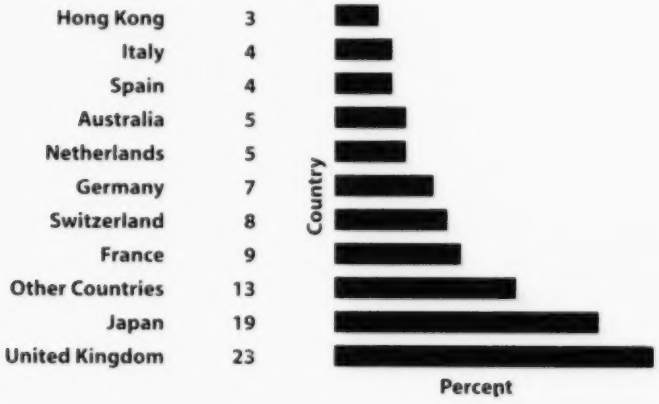
	Indexed (%)	Actively Managed (%)
Materials	3.4	4.0
Telecommunication Services	4.1	2.5
Utilities	4.3	2.9
Consumer Staples	7.2	7.6
Energy	8.7	9.0
Industrial Products	10.3	13.2
Health Care	10.9	13.5
Information Technology	11.9	15.6
Consumer Discretionary	12.2	13.7
Financial Services	27.0	18.0
	100%	100%



Indexed:	A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite)
Actively Managed:	A portfolio of securities that is designed to outperform a public market index

Investments Held as at March 31, 2005

International Equities, by Country



Investment Performance

Market Value Rates of Return for the Year Ended March 31, 2005

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks* (%)	
Annual Rates				
2004/05	8.1	8.5	7.1	
2003/04	21.4	23.2	24.1	
2002/03	-8.9	-8.0	-10.2	
2001/02	3.7	3.7	4.0	
2000/01	-3.0	-3.0	-5.6	
Five-year Annualized Rates				
2004/05	3.7		3.3	
2003/04	5.7		5.6	
Ten-year Annualized Rates				
2004/05	8.7		8.7	
2003/04	8.6		8.7	
2004/05 Annual Rates by Investment Category				**2004/05Performance Benchmark* Indices**
Short-term				
Money Market	2.3	2.3	2.2	SCI 91-Day T-Bill
Bonds	2.9	2.9	2.7	SCI Short-term Government Bond
Bonds				
Government	5.3	5.3	5.0	SCI Universe Government Bond
Corporate	4.9	4.9	5.0	SCI Universe Corporate Bond
Long-term	9.5	9.5	9.0	SCI Long-term All Government Bond
Real Return	9.8	10.7	10.7	SCI Real Return Bond
Canadian Equities				
Actively Managed	16.6	16.6	13.9	S&P/TSX Capped
Indexed	14.5	14.5	13.9	S&P/TSX Composite
U.S. Equities				
Actively Managed***	-1.5	-1.5	-1.0	R 1000
Indexed	-1.5	-1.5	-1.5	S&P 500
International Equities				
Asia	-0.1	-0.1	-4.4	MSCI Pacific Net
Europe	9.9	9.9	10.8	MSCI Europe Net
Europe, Australia and the Far East	5.7	5.7	5.9	MSCI Europe, Australasia, Far East Net
Real Estate	12.8	12.8	6.3	CPI + 4%
Mortgages				
Fixed-term	4.8	4.8	4.0	SCI Short-term Government Bond + 1%
Construction	5.4	5.4	3.2	SCI One-year T-Bill + 1%
Specialty	8.1	8.1	4.8	SCI One-year T-Bill + 2.5%
Private Placements	**	**	**	NB Small Capital (weighted) + 4.5%

* Benchmarks are standards to compare against actual investment returns.
** Annual rate of return not applicable.
*** Rate of return does not include derivatives.

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
MSCI	=	Morgan Stanley Capital International
NB	=	Nesbitt Burns
R	=	Russell
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange

(Source of annual rates: British Columbia Investment Management Corporation)

Financial Health

The Public Service Pension Plan is financially sound. The fund holds a diversified portfolio of debt and equity investments that offer consistent and steady performance over the long term.

Every three years, an independent actuary assesses the financial health of the plan and the adequacy of the contribution rates for funding the plan. The actuarial valuation as at March 31, 2002 indicated a funding surplus for basic pension benefits of $546 million. The joint trust agreement specifies how surplus assets can be used. The next valuation will be as at March 31, 2005 and available in early 2006.

A surplus means there are more than enough funds to meet the basic benefits, whereas an unfunded liability means there is a shortfall between the amount needed to fund basic benefits and the assets available to pay for those benefits.

Latest Actuarial Valuation as at March 31, 2002

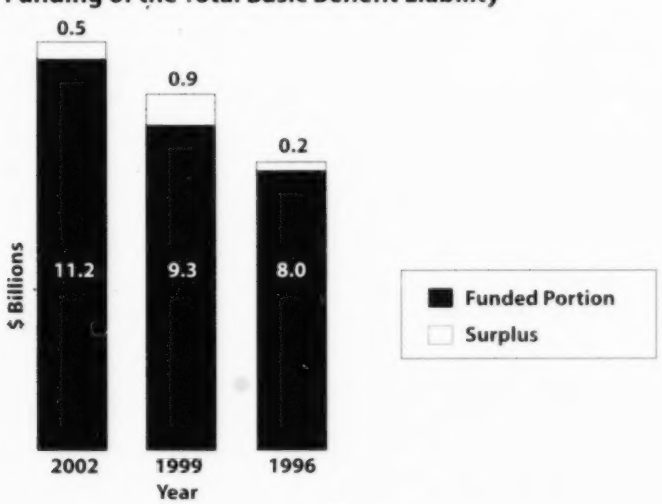
$ Millions

	Basic Pension Benefits Net Surplus		
	2002	1999	1996
For Funding Purposes*	546	929	222
Ratio of Surplus (Unfunded Liability) to Covered Payroll	23%	41%	10%
For Accounting Purposes to March 31	1,651	1,086	209

* Assuming contributions continue at rates in effect at the valuation date.

* See Note 7 and 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability



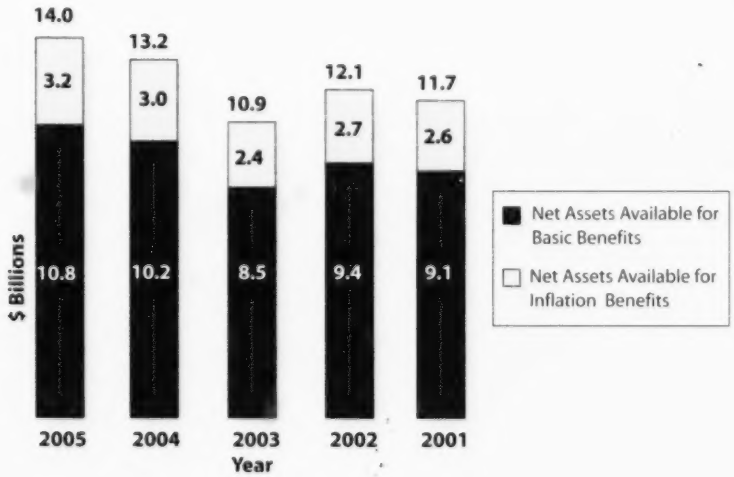
Five-year Financial Summary

$ Thousands

For the year ended March 31	2005	2004	2003	2002	2001
Increase (Decrease) in Assets					
Investment Income (Loss)	$ 1,079,447	$ 2,384,406	$ (1,040,412)	$ 441,357	$ (315,441)
Contributions					
Employers	191,641	196,982	190,320	182,297	126,929
Members	148,010	163,154	147,465	150,888	140,960
Transfers from Other Plans	33,493	29,713	18,235	32,377	9,294
Total Increase (Decrease) in Assets	**1,452,591**	**2,774,255**	**(684,392)**	**806,919**	**(38,258)**
Decrease in Assets					
Pension Benefits	450,951	406,007	365,429	316,770	295,545
Termination and Refund Benefits	41,858	30,049	31,607	21,927	22,952
Transfers to Other Plans	41,451	44,452	44,806	20,370	13,810
Retired Member Group Benefits	29,268	26,436	46,660	33,216	8,636
Investment and Administration Costs*	23,433	23,828	21,651	19,009	18,454
Total Decrease in Assets	**586,961**	**530,772**	**510,153**	**411,292**	**359,397**
Increase (Decrease) in Net Assets	865,630	2,243,483	(1,194,545)	395,627	(397,655)
Net Assets Available for Benefits at Beginning of Year	13,164,743	10,921,260	12,115,805	11,720,178	12,117,833
Net Assets Available for Benefits at End of Year	$14,030,373	$13,164,743	$10,921,260	$12,115,805	$11,720,178
Investment and Administration Costs*		**As a Percentage of Net Assets**			
Investment Management*	0.15%	0.14%	0.16%	0.14%	0.14%
Benefit Administration	0.06%	0.07%	0.09%	0.07%	0.06%

* External investment management costs incurred by real estate pooled fund wholly owned corporations of $6,066 thousand (2004—$4,470 thousand; 2003—$4,983 thousand; 2002—$6,262 thousand; 2001—$4,280 thousand) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets. These costs have been restated for comparative purposes.

Net Assets Available for Benefits
as at March 31



Financial Statements

PENSION CORPORATION

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

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PUBLIC SERVICE PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Public Service Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Pension Corporation), the administrative agent for the Board of Trustees (Board) of the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles. The Pension Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Public Service Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Pension Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

SANDRA LENZ, C.A.,
A/Chief Financial Officer
British Columbia Pension Corporation

BRIAN PEARSON, C.G.A.,
A/Director, Plan Finance
British Columbia Pension Corporation

July 15, 2005

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

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AUDITORS' REPORT

To the Members of the Public Service Pension Plan

We have audited the statement of net assets available for benefits of the Public Service Pension Plan as at March 31, 2005 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the board of trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at March 31, 2005 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada
July 15, 2005

KPMG LLP, a Canadian limited liability partnership, is the Canadian member firm of KPMG International, a Swiss cooperative.

Public Service Pension Plan

PUBLIC SERVICE PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at March 31	2005	2004
ASSETS		
Investments (Note 3)	$14,030,311	$13,209,033
Receivables		
Members' contributions	5,175	5,148
Employers' contributions	7,271	7,368
Due from MLA Superannuation Account	1,364	-
Accrued investment income	7,213	5,685
Due from sale of investments	31,808	4,795
	52,831	22,996
Prepaid expenses	1,692	1,053
Cash	559	-
Total Assets	14,085,393	13,233,082
LIABILITIES		
Payable for purchase of investments	40,895	55,432
Accounts payable and accrued expenses	14,125	12,907
Total Liabilities	55,020	68,339
NET ASSETS AVAILABLE FOR BENEFITS	$ 14,030,373	$ 13,164,743

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)

John W. Cook, F.C.I.A.
Chair, Public Service Pension Board of Trustees

Bruce Clow
Trustee
Public Service Pension Board of Trustees

Diane Wood
Trustee
Public Service Pension Board of Trustees

Public Service Pension Plan

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended March 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2005	Totals 2004
INCREASE(DECREASE) IN ASSETS					
Investment income (Note 4)	$ 818,066	$ 261,581	$ -	$ 1,079,447	$ 2,584,406
Contributions (Note 5)					
Employers'					
Province of British Columbia	77,470	21,048	21,052	119,570	125,360
Other	47,027	14,095	10,949	72,071	75,622
	124,497	55,143	32,001	191,641	196,982
Members'	116,426	51,279	305	148,010	165,154
	240,925	66,422	32,306	339,651	360,136
Transfers from other plans	23,687	8,581	-	32,068	28,812
Transfers from MLA Superannuation Account (Note 9)	1,287	138	-	1,425	901
Total Increase (Decrease) in Assets	1,083,965	336,422	32,306	1,452,591	2,774,255
DECREASE IN ASSETS					
Pension benefits					
Contributory	367,555	-	2,575	370,130	329,885
Indexing supplements	80,705	-	118	80,821	76,124
	448,258	-	2,693	450,951	406,007
Termination and refund benefits	26,508	15,350	-	41,858	30,049
Transfers to other plans	30,100	11,351	-	41,451	44,452
Retired member group benefits (Note 10)	-	-	29,268	29,268	26,436
Investment and Administration costs (Note 9)	19,667	5,421	545	25,455	25,828
Total Decrease in Assets	524,533	30,122	32,506	586,961	530,772
INCREASE IN NET ASSETS BEFORE TRANSFERS	559,450	306,200	-	865,650	2,243,483
Account transfers (Note 6)	72,241	(72,241)	-	-	-
INCREASE IN NET ASSETS	631,671	233,959	-	865,650	2,243,483
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	10,155,742	5,009,001	-	15,164,743	10,921,260
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 10,787,413	$ 5,242,960	$ -	$ 14,030,393	$ 15,164,743

Supplemental Benefits Account (Note 10)

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN

The Public Service Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established January 1, 2001. The ongoing partners to the Agreement are the Province of B.C. and the B.C. Government and Service Employees' Union (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Public Service Pension Board of Trustees (Board) and provides authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Joint Trust Agreement and the Plan rules.

a) General

The Plan is open to eligible employees of the Province of B.C. and certain crown corporations, agencies, institutions and other employers approved by the Board.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Board consists of up to fifteen members. The Partners and key stakeholders appoint fourteen members representing Plan members and Plan employers. The other trustees appoint the fifteenth member, the chair. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan. Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 4.25% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($41,100 in 2005) and 5.75% of salaries above the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Employer contributions to the Basic Account match those for members except for certain limited groups (e.g. correctional centre employees, ambulance employees, provincial court judges, masters of the Supreme Court, and some deputy ministers and officers of the Legislature) where employers pay a higher rate to compensate for the additional cost of their benefits, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Inflation Adjustment Account and Supplemental Benefits Account
Members contribute 1.25% (1.5% effective April 1, 2005) of salaries to the Inflation Adjustment Account (IAA). Employers contribute 2.50% (2.25% to March 31, 2004) of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, where age plus years of service equals 85 or more or
- at age 50 or older, where age plus years of service equals 85 or more for certain groups.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.35% (1.3% for members who terminated prior to March 1, 2002) of pensionable earnings up to the YMPE, and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five-year highest average salary (HAS).

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

d) Pension Benefits (continued)

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.65% (0.7% for members who terminated prior to March 1, 2002) of the lesser of the YMPE or the HAS.

Certain limited groups of members (eg. provincial court judges, masters of the Supreme Court, and some deputy ministers and officers of the Legislature) receive different benefits.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2005, retired members received a full CPI increase of 1.8% (2004: 2.2%).

e) Termination and Portability Benefits

A terminating member who is eligible for a pension, but has not reached the earliest retirement age may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the members' contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements. A terminating member who is not eligible to receive a pension may also choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP), as defined in the *Income Tax Act* (Canada), except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan. It does not purport to show whether these assets are adequate to meet all of the obligations of the Plan.

Certain comparative figures have been reclassified to conform with the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of these assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses which is included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are recognized on the accrual basis. Gains and losses on derivative instruments are recognized concurrently with changes in fair values.

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account.

3. INVESTMENTS (FAIR VALUE)

	2005			2004
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 73,624	$ 29,910	$ 103,534	$ 444,791
Canadian Bonds	3,064,260	928,054	3,992,314	3,547,469
Canadian Equities	2,573,275	769,566	3,342,841	3,029,931
U.S. Equities	1,553,379	461,746	2,015,125	1,947,438
International Equities	1,661,137	508,844	2,169,981	2,151,713
Foreign Currency	15,472	4,748	20,220	22,725
Mortgages	426,972	127,808	554,780	501,283
Real Estate	1,124,004	334,639	1,458,643	1,212,292
Private Placements	295,807	77,066	372,873	351,391
	$ 10,787,930	$ 3,242,381	$ 14,030,311	$13,209,033

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

3. INVESTMENTS (FAIR VALUE) (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit entitles the holder to a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less, and short-term bonds with one to five year terms. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, investments in Europe, Australia and the Far East. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or real estate investments made outside the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every ten to eighteen months, by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or currency rates.

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

4. INVESTMENT INCOME

	2005			2004
	Income Allocation	Current Period Change In Fair Value	Total	Total
		($ Thousands)		
Basic Account				
Short-term	$ 5,803	$ (3,327)	$ 2,476	$ 13,596
Canadian Bonds	137,137	46,713	183,850	277,509
Canadian Equities	44,339	300,118	344,457	787,616
U.S. Equities	58,059	(24,325)	33,734	220,643
International Equities	43,499	51,231	94,730	426,984
Foreign Currency	351	77	428	7,732
Mortgages	25,727	(4,947)	20,780	34,324
Real Estate	43,082	79,420	122,502	57,478
Private Placements	(1,003)	16,112	15,109	(17,512)
Investment Income	$356,994	$ 461,072	$ 818,066	$1,808,370
Inflation Adjustment Account				
Short-term	$ 894	$ (139)	$ 755	$ 787
Canadian Bonds	44,028	22,965	66,993	101,910
Canadian Equities	13,263	80,757	94,020	230,708
U.S. Equities	17,748	2,083	19,831	68,786
International Equities	13,411	16,889	30,300	142,740
Foreign Currency	108	27	135	2,420
Mortgages	7,632	(1,443)	6,189	10,237
Real Estate	12,962	23,462	36,424	17,674
Private Placements	(92)	6,826	6,734	774
Investment Income	$ 109,954	$ 151,427	$ 261,381	$ 576,036
Total Investment Income	$ 466,948	$ 612,499	$ 1,079,447	$ 2,384,406

The income allocation portion of investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

5. CONTRIBUTIONS

	2005				2004
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
				($ Thousands)	
Employers' contributions					
Province of British Columbia					
Regular	$ 67,133	$ 17,309	$ -	$ 84,442	$ 84,165
ERIP Contributions	5,636	2,196	-	7,832	5,679
Arrears	196	68	-	264	83
Purchase of service	2,386	1,188	-	3,574	9,771
Leave of absence	436	242	-	678	1,820
Reinstatement	1,683	45	-	1,728	3,029
Supplemental benefits	-	-	21,052	21,052	18,813
	$ 77,470	$ 21,048	$ 21,052	$ 119,570	$123,360
Other employers					
Regular	$ 45,139	$ 13,101	$ -	$ 58,240	$ 58,343
ERIP Contributions	284	105	-	389	156
Arrears	205	109	-	314	62
Purchase of service	1,264	701	-	1,965	4,366
Leave of absence	135	79	-	214	536
Reinstatement	-	-	-	-	-
Supplemental benefits	-	-	10,949	10,949	10,159
	$ 47,027	$ 14,095	$ 10,949	$ 72,071	$ 73,622
Total Employers'	$124,497	$ 35,143	$ 32,001	$ 191,641	$196,982
Members' contributions					
Regular	$109,469	$ 29,635	$ -	$139,104	$140,458
Arrears	271	72	-	343	147
Purchase of service	3,478	1,024	246	4,748	11,445
Leave of absence	607	174	-	781	2,006
Reinstatement	2,601	374	-	2,975	9,044
Supplemental benefits	-	-	59	59	54
Total Members'	$116,426	$ 31,279	$ 305	$148,010	$163,154
Total Contributions	$240,923	$ 66,422	$ 32,306	$339,651	$360,136

Member and employer contributions are as defined under the Plan rules.

Member regular Basic Account contributions were $109.5 million, of which $59 thousand was allocated to the Supplemental Benefits Account.

Employer regular Basic Account contributions were $114.9 million, of which $2.4 million was allocated to the Supplemental Benefits Account. Employer regular Inflation Adjustment Account contributions were $60.0 million, of which $29.6 million was allocated to the Supplemental Benefits Account.

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

6. ACCOUNT TRANSFERS

	2005		2004	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	($ Thousands)			
Present value of current indexing supplements	$ 68,171	$ (68,171)	$ 75,320	$ (75,320)
Indexing of deferred pensions	4,070	(4,070)	2,842	(2,842)
Excess interest	-	-	-	-
	$ 72,241	$ (72,241)	$ 78,162	$ (78,162)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is transferred from the IAA to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended March 31, 2003 through 2005. Excess interest is based on investment income earned on Basic Account assets required for pensions currently being paid, approximately $4.0 billion of assets for 2005 (2004: $3.6 billion). The excess interest rate of return is determined by taking the difference between the actual five-year average market rate of return and the rate of return used by the actuary (7.3%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2005 was -3.6%; (2004: -1.6%), resulting in a negative excess interest amount of $145.1 million (2004: $58.2 million). The cumulative negative excess interest amount, including interest applied on cumulative excess amounts, is $387.8 million which will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at March 31, 2002. This valuation disclosed a surplus, for basic account pension benefits of $546 million (1999 - $929 million), assuming future contributions at the contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

- annual investment return 7.3%
- annual salary escalation rate 4.8%

The next full valuation will be at March 31, 2005, for inclusion in the March 31, 2006 financial statements.

The Joint Trust Agreement (Agreement) specifies that, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The agreement also describes the manner in which the Board can elect to apply surplus assets.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members, full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA) (continued)

assists the Board to identify scenarios, some years in advance of their possible occurrence, where the IAA assets may cease to grow and therefore, when the Plan may not be able to grant full indexing of benefits. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

To help strengthen the Plan's IAA, the Public Service Pension Plan Partners entered into an agreement to amend the Plan rules. The agreement resulted in employer contributions to the IAA increasing by 0.25% of salaries on April 1, 2004 and a parallel 0.25% increase to Plan member contributions effective April 1, 2005.

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members is paid. Future indexing benefits are not guaranteed within the Plan provisions, and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes includes the liability for all indexing granted to the date of the valuation, but not for, as yet unknown, future indexing.

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

The latest full valuation was made as at March 31, 2002, by Eckler Partners Ltd., The results were as follows:

As at March 31	2002	1999
	($ Millions)	
Net assets available for basic pension benefits	$ 9,394	$ 8,293
Five year market value smoothing adjustment	253	(868)
Net actuarial assets for basic pension benefits	9,647	7,425
Liability for accrued basic pension benefits	(7,996)	(6,339)
Actuarial Surplus	$ 1,651	$ 1,086

The next full actuarial valuation will be at March 31, 2005 for inclusion in the March 31, 2006 financial statements.

The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to March 31, 2005, using the following long-term actuarial assumptions.

- annual investment return 7.3%
- annual salary escalation rate 4.8%

On this basis, the extrapolated value of the surplus is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits As at March 31	2005	2004
	($ Millions)	
Extrapolated actuarial assets, beginning of year	$ 10,890	$ 10,249
Account transfers	72	78
Current year contributions	244	264
Net transfers from (to) other plans	(5)	(9)
Pension, termination and refund benefits	(485)	(435)
Interest accrued on assets	787	743
Extrapolated actuarial assets, end of year	$ 11,503	$ 10,890

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8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits As at March 31	2005	2004
	($ Millions)	
Extrapolated liability for accrued basic pension benefits, beginning of year	$ 9,182	$ 8,570
Account transfers	72	78
Current period benefit cost	332	354
Net transfers from (to) other plans	(5)	(9)
Pension, termination and refund benefits	(485)	(435)
Interest accrued on liability	666	624
Extrapolated actuarial liability for accrued basic pension benefits, end of year	$ 9,762	$ 9,182
Extrapolated Actuarial Surplus, March 31	**$ 1,741**	**$ 1,708**

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. RELATED PARTY TRANSACTIONS

a) Transfers from Members of the Legislative Assembly (MLA) Superannuation Account

	2005	2004
	($ Thousands)	
Present value of MLA pensions granted	$ 1,287	$ 687
Present value transfer for indexing supplements	138	214
	$ 1,425	$ 901

When a Member of the Legislative Assembly (MLA) is granted a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Plan, from which monthly benefits are paid. During the year ended March 31, 2005, three MLA pensions were granted (2004 – two pensions were granted).

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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9. RELATED PARTY TRANSACTIONS (continued)

b) Investment and Administration Costs

	2005	2004
	($ Thousands)	
Investment Management	$14,815	$ 14,539
Benefit Administration	8,099	8,761
Board Remuneration and Expenses	207	173
Board Secretariat Costs	146	149
Other Professional Services	166	206
	$23,433	$ 23,828

The bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to the real estate fund.

Investment management costs of $6,065,888 (2004: $4,469,399) representing the management costs incurred by wholly-owned corporations of the real estate investments are not included in the above amount.

Benefit administration costs represents amounts charged to recover benefit administration costs incurred by the Pension Corporation. These costs are approved by the Board. Included in accounts payable is $1.4 million (2004: $1.6 million) due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts for staffing and other costs associated with Board support.

Other professional services include actuarial, insurance, audit and legal fees.

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10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through this account. The availability, type and level of retired member group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits. To the extent that group benefits are funded from the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and cannot exceed 50% of the total of current member and employer inflation adjustment contributions. Retired member group benefit costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by members.

11. COMMITMENTS

The Plan participates in private placement and international real estate pools that are managed by bcIMC. As at March 31, 2005, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $351 million (2004: $267.7 million).

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximates their carrying values.

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of currency risk, interest rate risk, and market risk. Foreign currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

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12. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk
The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Actuarial liabilities are affected by changes in long-term market interest rates.

Foreign Currency Risk
Foreign currency exposure arises from the Plan's holdings of foreign-currency denominated investments and related derivative contracts. Foreign currency forward contracts are used to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

Market Risk
The Board approves the long-term asset mix policy for investment assets and oversees the management of these assets through the Board's investment management agent, bcIMC. Market risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

Credit Risk
The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

13. CONTINGENCY

The Board is currently named as a third party, in a legal action against the Province of British Columbia, in connection with changes to retiree group benefit coverage. The Province and the Board are currently in discussion about the possible discontinuance of the board as a third party. This legal action is in its preliminary stages and the Board is not in a position to express an opinion as to the likely outcome of this action.

This is a publication of the
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98-101 2005.10.24 QPR101875